



Hawaii  
Strategic  
Development  
Corporation

No. 1 Capitol District Building  
250 South Hotel Street, Suite 508  
P.O. Box 2359  
Honolulu, Hawaii 96804  
Phone: (808) 538-3830

## MINUTES OF THE LUNCHEON MEETING OF THE BOARD OF DIRECTORS

Thursday 13 August 2015

#1 Capitol District Building, 250 South Hotel Street, Room 436, Honolulu, HI 96813

### MINUTES

#### PRESENT

H. Brian Moore, Chair  
Keiki-Pua Dancil, Vice Chair  
Michael O'Malley  
Jon Wallenstrom  
Luis Salaveria  
Ann Chung  
Fred Hemmings  
James Moonier  
Derek Lau

#### EXCUSED

NELHA Ex Officio member

#### STAFF

Karl Fooks, President  
Gregg Kinkley, DAG

#### GUESTS

Robbie Melton

- **CALL TO ORDER:** Meeting called to order by the Chairman at 12:05 PM.
- **8 July 2015 MEETING MINUTES:** All Minutes were approved.
- **Blue Startups**
  - Henk Rogers and Chenoa Farnsworth presented an update on the Blue Startups accelerator program.
  - Blue Startups achieved a national ranking of #17 overall among all accelerator programs by TechCrunch. Member Wallenstrom asked about the basis for the ranking. Chenoa replied that it was a detailed survey conducted by MIT for TechCrunch.
  - Blue Startups is a member of the Global Accelerator Network, started by TechStars.
  - Member Moonier asked if the increase in applications is coming from Hawaii startups or Mainland startups. Chenoa replied that Blue is open to all applicants, but gives preference to Hawaii applicants.
  - Chenoa updated the board on recent management changes and the operating budget. One important change is the addition of an Entrepreneur in Residence. Chair Moore asked about the use of funds from HSDC and Chenoa replied that the money is used primarily for staff and operating expenses excluding rent, which is provided by Henk Rogers.
  - Blue Startups has graduated 5 cohorts, representing 40 companies. Blue Startups has invested approximately \$1million in these companies, collectively, and as a group they have raised approximately \$20 million. In response to Member Moonier's question, Chenoa said that this is very good performance on a comparative basis with other accelerator programs.
  - Blue Startups will now provide \$50,000 of investment, \$25,000 at the beginning of the program and \$25,000 at the end if milestones are met. Equity stakes will be flexible depending on the stage of the company. The follow-on investment of \$50,000 will be maintained for qualifying companies.

- Chair Moore congratulated Blue Startups on their success. However, the message of Blue Startup's success has not been communicated to the Legislature and Blue Startups needs to be cognizant of the need to participate in efforts to educate the Legislature on the successes of their efforts. Henk and Chenoa replied that they recognize the importance of keeping the Legislature informed about their activities. Member Chung suggested that Legislators want to support innovation, but need to be reminded from time to time of the industry successes as they have so many issues to keep track of on a daily basis. Member Salaveria agreed that communicating the industry successes is important to lay the foundation for a request to commit to a long term effort to invest in innovation and entrepreneurship.
- Member Hemmings asked what the biggest inhibitor to creating a thriving tech industry in Hawaii. Chenoa replied the cost of doing business in Hawaii, however the cost of doing business in Silicon Valley has increased dramatically and Hawaii may now be competitive. Member Hemmings suggested that entrepreneurs look at sports related businesses as opportunities.
- **DECISIONS:** The Board unanimously approved HSDC maintaining its \$250,000 commitment of LAVA funding for Blue Startups for 2015.
- **Kolohala Hydrogen Fund:**
  - Rob Robinson presented an overview of the Kolohala Hydrogen fund and an update on its portfolio.
  - The fund made 6 investments for approximately \$4.25 million. Sopogy, Phycal and Clear Fuels have gone out of business. Management fees will be reduced with the write-off of these investments. The cost of running the fund is approximately \$90,000 per year for the next three years for a total of \$270,000. There is a case for maintaining the fund as the remaining 3 companies may be able to return capital back to the fund.
  - An alternative is to terminate the fund early. Kolohala proposes to sell its 1% stake and to forgo its management fees for a buyout of \$130,000. The Hydrogen grant program would continue through the University of Hawaii. There is a remaining \$400,000 to be expended through this program, although these funds have been obligated.
  - Chair Moore asked for an explanation of the performance of the fund to date. Rob replied that the equity program was too small and did not allow for a sufficient portfolio to be invested in, as 10-12 companies is the target size for a venture portfolio. The required focus on companies that participate in the Hydrogen economy also restricted the universe of investable companies. The Board discussed the origins of the fund and the Legislative impetus to establish this fund. For administrative purposes it was placed within HSDC, but managed by DBEDT.
  - Member Moore asked if there was a decision requested from the Board. The President replied that if the Board would like to terminate the fund, he would prepare a proposal for the board. In the meantime, the fund will be monitored and an update will be provided at a later date.
- **HSDC Capital Fund LLC:**
  - The President provided a background on the preparation of these financial statements. HSDC took over management of its fund of funds vehicle in 2009. The fund was previously managed by a private sector third party manager. With the receipt of the SSBCI grant of \$13 million in 2011 and the resumption of investment activity via HSDC Capital Fund, the Board determined that the investment vehicle should be properly audited. A RFP was conducted and KKDLY was selected as the auditor for HSDC Capital Fund LLC.
  - Ralph Kanetoku and Robyn Kawamura, from KKDLY, presented an overview of the audit and the 2014 financial statements. The primary difference from GAAP accounting is the treatment of investments. Rather than fair value accounting, HSDC has chosen to present its



investments on a modified cash basis, essentially on a cost basis. This approach was selected due to the small size of the portfolio and the cost of undertaking a fair value valuation. There were no issues with the audit and HSDC staff fully cooperated with the audit.

- Chair Moore asked if there was a sudden change in management, would the audit firm be able to access the relevant information and track the investment activity. Robyn replied that the level of activity is not substantial and the information should be readily available on DBEDT computers.
- **DECISIONS:** The Board unanimously (Keiki-Pua Dancil was not present) approved the 2014 Financial Statements for HSDC Capital Fund LLC.
- **UHERO:**
  - The President reported that Prof. Bonham of UHERO was not able to attend this board meeting, but he will make a presentation at the next board meeting.
- **SSTI Conference:**
  - The President suggested members of the Board consider attending the conference.
- **Portfolio Report:**
- **HTDC Report:**
  - Robbie Melton reported that an Innovation Manager has been hired. High speed broadband will be installed in the Maui facility. HTDC is managing two new grant programs to support manufacturing and renewable energy. Robbie invited the Board to attend the next WetWare Wednesday.
- **NELHA Report:**
- **Public Input and Discussion:**
- **Request for Future Agenda Items:**
- **MEETING ADJOURNED:** Meeting adjourned at 1:55 PM.

